BUSINESS
BUDGETING

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All Roads Lead to CHICAGO for the 1957 National Conference!

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KNOW YOUR OFFICERS

MELVIN C. AICHHOLZ — SECRETARY

Mel is Controller of the Bavarian Brewing Company, Inc., Covington, Kentucky. He is a graduate of the University of Cincinnati in Business Administration and has been associated with the financial departments of Sears, Roebuck & Company, Standard Brands, Inc., The Cincinnati Milling Machine Co., The Drackett Company and the Interchemical Corporation. His experience in the field of budgeting began in 1933. He has successfully handled the responsibilities of the positions of time study analyst, cost estimator, cost accountant, branch accountant, division accountant, general accountant, internal auditor, supervisor of industrial accounting, office manager, budget director, assistant controller and controller. In his present position as Controller he devotes much of his time to budgeting and financial analysis. He likes to work with cash forecasts, as they include practically all phases of the field of budgeting. He enjoys the development of long range forecasts.

His pet subjects are: Standard Costs, Flexible Budgets, Break-even Points and Profit Volume Ratios. On the latter subject, he is a disciple of the management engineering firm of Stevenson, Jordan and Harrison.

He is a "short wave" enthusiast and regularly "works" the four corners of the world by ham radio. Call is W8LLX.

He has been village clerk for 10 years and doesn't mind being called a "small town politician." Mel is 49 years of age and lives with his wife and 10 year old daughter in Terrace Park, Ohio.

Mel has taken a very active part in the organization and conduct of the Cincinnati Chapter, and as is usual for Mel, his performance as National Secretary has continued the high standards established for this office.

E. W. BUGE is well known in the NSBB, having been a president of the Western budget group which later joined with the Eastern budget executives organization to form the National Society for Business Budgeting. He is Controller of the Bernardin Bottle Cap Co., of Evansville, Indiana, and an active member of the Indianapolis Chapter, NSBB.

ANOTHER MILESTONE PASSED

On February 2, 1957, Secretary Aichholz issued membership certificate No. 1000 to Lambert P. Irons of Honolulu. Mr. Irons is Director of Economic Control, Hawaiian Airlines, Ltd. He also reports prospects of forming an NSBB Chapter in the land of Aloha.

THE CONTROL OF DECENTRALIZED OPERATIONS

By: A. R. Fey
Assistant Works Controller, A. O. Smith Corp., Pacific Coast Works, Los Angeles

The increase of plant and company expansion has brought problems of multi-plant operations control to many firms, for the first time. Here is a presentation on the "return on gross investment" relationship as an effective tool for multi-plant control and analysis of operations.

The operation of a multi-plant organization requires some control devices that are of a common-language nature to both central office and division management. Variable budgets for each department are necessary for divisional control, but provide more detail than can be used efficiently by the central office. On the other hand, some of the long range, company-wide controls used in central office would not provide the detail necessary for day to day operations. It is desirable to have at least one control tool that would be useful to both managements and provide some means of tying together the other control devices.

One of the most effective tools that both central office and division management can use for control and analysis of operations is the return on gross investment relationship. To be really useful several goals and standards must be set and should be understood clearly by all management personnel.

The establishing of these goals and the use of the relationship will be described by illustration, using a fictional company and hypothetical data. The fictional company, called NSBB Manufacturing Company has operating divisions in various locations, and the Western Division will be considered as typical, providing all data for this illustration.

BASIC DEFINITIONS

The NSBB Co. Central Office has decided to use the return on gross investment as a control device, and desires the divisions to work with the same control device as a divisional control tool. The following basic definitions were made:

1. The divisions will be measured on "Operating Profit", which is to include all division costs, but no charge or allocation for Central Office costs.
2. Divisions will carry on the division books all of the investment in land, buildings, machinery and equipment, showing both gross cost and depreciation reserve.
3. Divisions will carry on the division books inventories and accounts receivable.
4. The "Gross-Investment" of the division will be the gross fixed asset value plus inventory plus accounts receivable.

The Central Office has set up first a "Division Goal" for return on gross investment. It is recognized that this is a higher return than the divisions are now obtaining, but it is the goal toward which the management should direct its efforts. In the case of the Western Division, the Division Goal is a return of 24%. It is a relatively long term goal, probably requiring at least five years to achieve.

DIVISION STANDARDS ESTABLISHED

In order to work toward the Division Goal, the Division management and the Central Office have established a series of "Division Standards" which are short-term targets for current operations, and are in effect for one year only. These Division Standards are to be reviewed each year, working toward the Division Goal. For the current fiscal year the Division Standards are as follows:

NSBB Mfg. Co. - Western Division A-1

Division Standards

	Total Division	Product A	Product B	Product C
Sales	$ 500,000	$ 300,000	$ 150,000	$ 50,000
Standard Cost of Sales				
Material	200,000	110,000	70,000	20,000
Labor	50,000	30,000	18,000	2,000
Burden	100,000	60,000	37,000	3,000
Total Standard Cost	350,000	200,000	125,000	25,000
Standard Margin	150,000	100,000	25,000	25,000
Manufacturing Variances				
Labor	(5,000)	(3,000)	(1,800)	(200)
Burden	(10,000)	(6,000)	(3,700)	(300)
Actual Margin	135,000	91,000	19,500	24,500
Operating Expenses	75,000	56,000	11,000	8,000
Operating Profit	$ 60,000	$ 35,000	$ 8,500	$ 16,500
% Profit to Sales	12.0%	11.7%	5.7%	33.0%
% Standard Margin	30.0%	33.3%	16.7%	50.0%

Investment Standards:		
Gross Fixed Assets	$ 2,000,000	
Inventories	1,400,000	(Turnover of 3)
Accounts Receivable	750,000	(1½ Months)
Total	$ 4,150,000	

TABLE A-1

1. Gross Fixed Investment of $2,000,000.
2. Monthly sales of $500,000.
3. Inventory turnover of 3 times.
4. Accounts receivable equivalent to 1½ months' sales.
5. Operating profit of $60,000, which, if gross investment components are at standard, would yield a return of 17.34% on the gross investment.

The Western Division uses variable budgets for expense control, details of which are not supplied here. The Division Standards and the budgets have provided the data for the profitgraphs P-1, P-2, P-3 and P-4.

Table A-1 shows the Division Standard in terms of a Profit or Loss Statement.

ILLUSTRATIVE DATA

In order to show the analysis and control features of the return on investment, four hypothetical profit or loss statements have been provided in Tables B-1, B-2, B-3 and B-4. In these four months different mix of product, different shipments and different expenses were assumed to show changes in the return on investment. These figures have been shown on the profitgraph and other charts as points coded "J", "F", "M" and "A".

MSB Mfg. Co. - Western Division — R-1

Profit or Loss Statement - January

	Total Division	Product A	Product B	Product C
Sales	$ 450,000	$ 275,000	$ 125,000	$ 50,000
Standard Cost of Sales				
Material	179,300	100,900	58,400	20,000
Labor	44,500	27,500	15,000	2,000
Burden	88,800	55,000	30,800	3,000
Total Standard Cost	312,600	183,400	104,200	25,000
Standard Margin	137,400	91,600	20,800	25,000
Manufacturing Variances				
Labor	(4,400)	(2,900)	(1,200)	(300)
Burden	(16,200)	(9,600)	(6,200)	(400)
Actual Margin	116,800	79,100	13,400	24,300
Operating Expenses	74,000	55,000	11,000	8,000
Operating Profit	$ 42,800	$ 24,100	$ 2,400	$ 16,300

Investment:

Gross Fixed Assets	$ 2,100,000
Inventories	1,500,000
Accounts Receivable	800,000
Total	$ 4,400,000
Annualized Profit	$ 513,600
% Return	11.7
Sales to Investment	1.23
% Profit to Sales	9.51

- TABLE R-1 -

MSB Mfg. Co. - Western Division — R-2

Profit or Loss Statement - February

	Total Division	Product A	Product B	Product C
Sales	$ 590,000	$ 340,000	$ 160,000	$ 90,000
Standard Cost of Sales				
Material	219,500	124,800	74,700	20,000
Labor	55,200	34,000	19,200	2,000
Burden	110,400	68,000	39,400	3,000
Total Standard Cost	385,100	226,800	133,300	25,000
Standard Margin	164,900	113,200	26,700	25,000
Manufacturing Variances				
Labor	(5,000)	(3,100)	(1,700)	(200)
Burden	(9,600)	(5,300)	(3,900)	(400)
Actual Margin	150,300	104,800	21,100	24,400
Operating Expenses	77,000	58,000	11,000	8,000
Operating Profit	$ 73,300	$ 46,800	$ 10,100	$ 16,400

Investment:

Gross Fixed Assets	$ 2,100,000
Inventories	1,400,000
Accounts Receivable	750,000
Total	$ 4,250,000
Annualized Profit	$ 879,600
% Return	20.7
Sales to Investment	1.55
% Profit to Sales	13.33

- TABLE R-2 -

ANALYSIS OF DATA

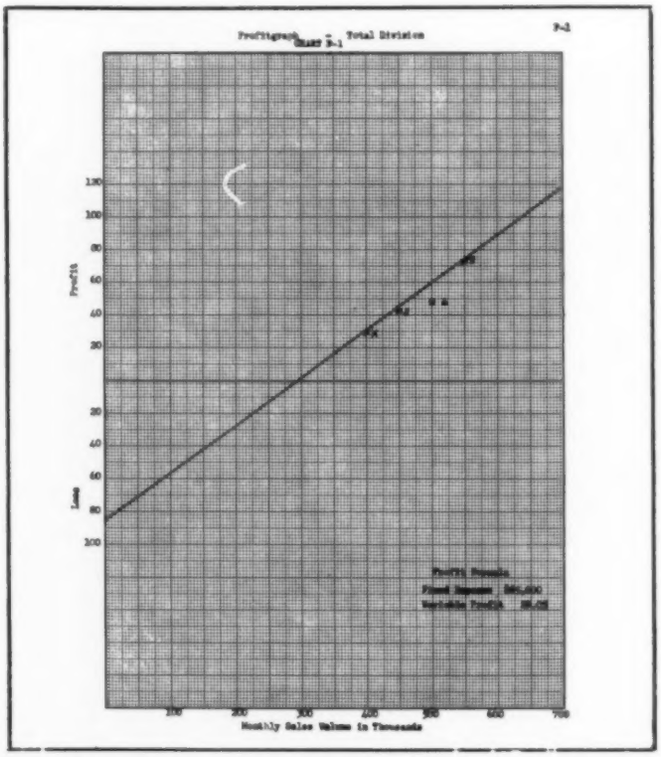
The return on the gross investment is usually considered as the percentage found by dividing the annualized monthly profit by the gross investment. In order to get some analysis of the causes of fluctuation in this percentage, it would be better to consider it as the product of two ratios. One is the percentage of profit on sales and the other is the ratio of sales to investment. Expressed algebraically:

$$\frac{P}{S} \quad \frac{S}{I} \quad \frac{P}{I} = R$$

Chart R-1 shows the Division Goal of 24% return as a curve, any point of which shows the profit percentage and corresponding sales-investment ratio necessary to get a 24% return. Also on this chart is the point "D.S". which is the Division Standard, or a 17.34% return, and is obtained from a 12% profit on sales and a sales-investment ratio of 1.44. In analyzing the four months in the illustration, the points are posted to this chart as follows:

	Return %	Profit % to Sales	Sales-Investment Ratio
January	11.7	9.51	1.23
February	20.7	13.33	1.55
March	8.1	7.43	1.09
April	12.9	9.36	1.36

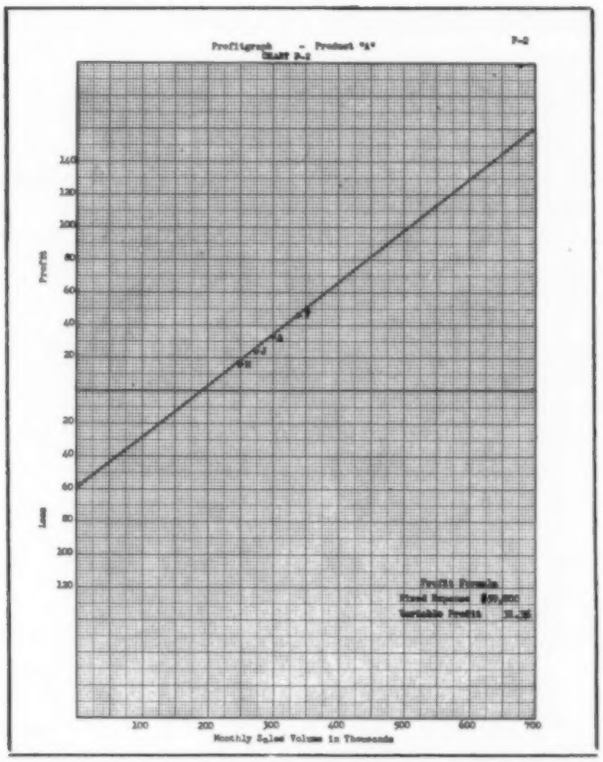
In these four months, February is the only month showing a return better than Division Standard. This was the result of both the profit percentage and the sales-investment ratio being better than standard. Further analysis of this month by the usual procedures of margin analysis and budgets show that the principal factor in February's good performance is the added volume of sales which provided more standard margin dollars. In contrast to this April, which had a better return than January, despite a lower profit percentage than January, largely due to poor product mix and higher manufacturing expenses. The answer is in the better sales-investment ratio in April compared to January. Hence, it can be seen that both factors in the return are important, and must be followed and

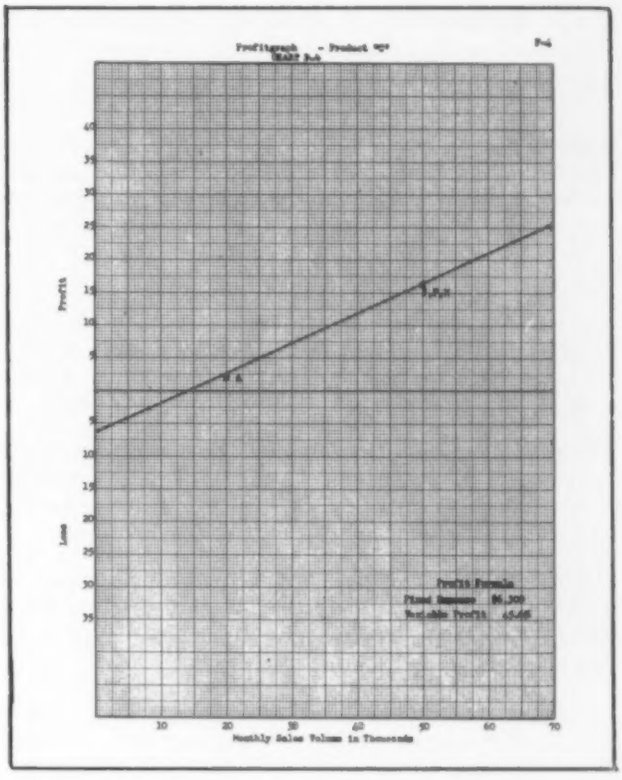


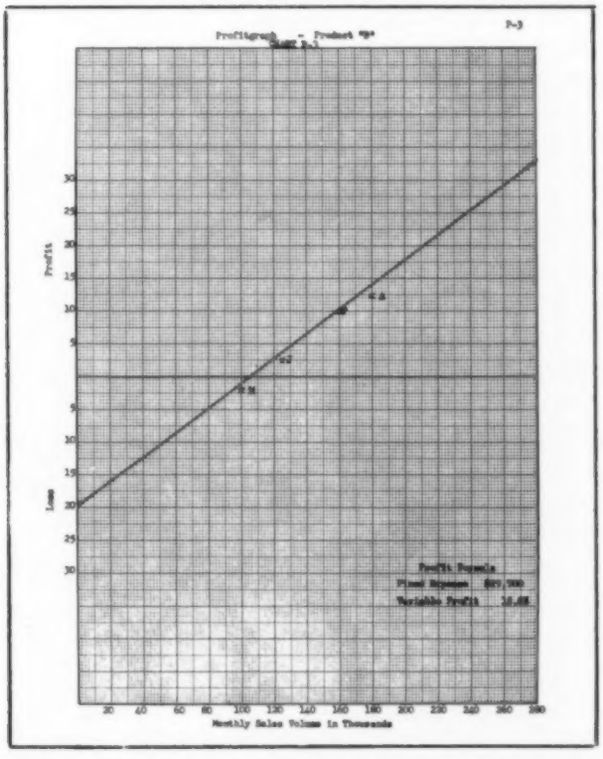
controlled. The control is obtained by study of all factors involved, such as volume, product mix, labor efficiency, and expense control. The plotting of the points on the Return Chart R-1 records the progress of such control.

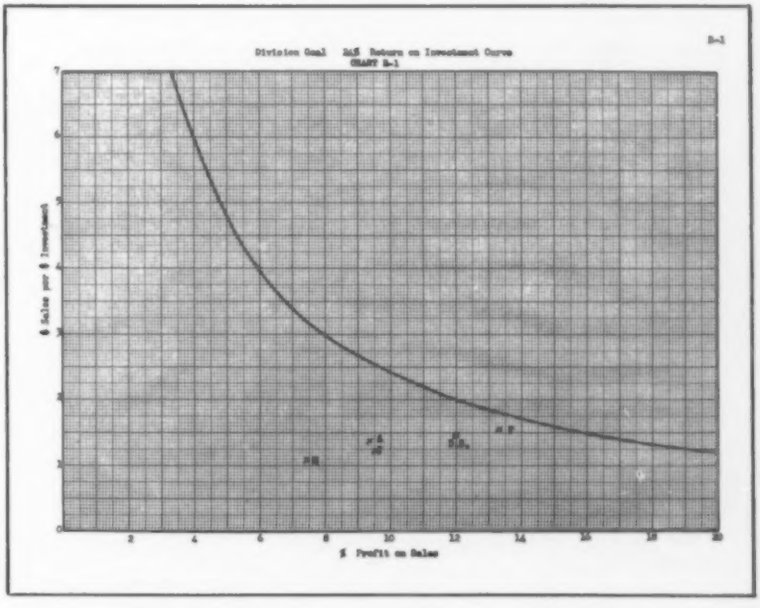
USE OF THE RETURN ON INVESTMENT IN PLANNING

In addition to the use of this concept as a control device as outlined above it is useful in the future planning of operations. Let us assume that the Western Division is looking for means to improve its return beyond 17.34% in the Division Standards. It has explored the possibilities of increased sales, and









finds that there is little potential there. So, either costs must be reduced to improve the profit percentage, or investment reduced to improve the sales-investment ratio, or both. As a first suggestion, it is planned to reduce inventories by $100,000, bringing the standard investment to $4,050,000. This, however will cause increased costs of $1,000 per month for short runs, extra setup time, etc., so the standard profit would drop to $59,000. This would result in a return of 17.48%, which is a slight improvement in return. It would certainly be worth further investigation to see if the $1,000 additional costs would be minimized.

A second suggestion is to acquire some new high-speed machines to reduce cost, thereby improving the profit percentage. It is found that investing $200,000 in new equipment and tools will make possible some cost reduction. This would bring the standard investment up to $4,350,000. It would also increase fixed manufacturing expenses by the depreciation charge of $1,700 per month. The reduction in variable cost from this new equipment is such that the variable profit would increase from .290 to .310. As a result the monthly profit on $500,000 would be $68,300, for a return of 18.84% on the adjusted investment. This is quite an improvement, and should be explored further.

Next, the possibilities of a price cut to increase the volume were explored. It was assumed that a cut of 5% in Product "A"

(Continued on Page 17)

PLANNING A BUDGET PROGRAM FOR DYNAMIC AND SUCCESSFUL MANAGEMENT

By: G. R. Guthrie, Jr.
Budget Manager, I-T-E Circuit Breaker Company, Philadelphia, Penna.

For those planning installation of a budget program, or the revision of an existing program, here is a meaningful review of the basic and fundamental foundations which a good plan should encompass. Dynamic and Successful management deserves ony one kind of budget system . . . one which is dynamic and successful!

Budgeting, in spite of the substantial publicity given to the topic, is still a controversial area to many businessmen. The word budget itself often carries with it ulterior implications.

Therefore we who plan and install budget programs must be prepared to combat certain prejudices. To accomplish this task, we must firmly imbed in our own, and in our co-worker's minds, the reasons why budgets are a business necessity.

First, however, let me introduce you to budgets by a simple definition: Budgets are merely the numerical expression of business planning.

And now, why budgets?

First, and probably foremost, although I am not attempting to establish a sequence of importance, budgets enable us to state our profit objectives in advance. Therefore, these objectives become the "cause" of our future operations, not the haphazard and unexpected "result."

Secondly, a well-constructed budget system serves to record the plans of every unit of the organization. In doing this our budget program provides an automatic and effective method of management communication and co-ordination throughout the corporate enterprise.

Thirdly, budgets force each individual of the organization who is responsible for the expenditure of funds to become aware of and understand these expenditures. In itself, then, the budget stimulates a far-reaching theme of cost-consciousness.

Fourthly, when we review the degree of adherence of actual operations to those which were planned and expressed in budgets, we obtain an excellent evaluation of the effectiveness of each of our management personnel.

Finally, budgets create Living Accounting. Traditionally, the accountant's role has been restricted to the recording of results — to the writing of history. A prominent executive with whom I am acquainted has, in his office, a sign which reads: "Everyone has 20/20 hindsight". Through the budget program, however, the accountant becomes an active party in management's most important task — planning ahead.

Before embarking on a budget program, it is wise to establish certain policy bench marks.

DEFINING BUDGETING RESPONSIBILITIES

One of these is definition of the budgeting responsibilities of certain groups and individuals. I might mention that there are two roads to budgeting. One, which I characterize as "ivory-tower budgeting", is performed by one or two individuals in a small dimly-lit office. By a statistical analysis of past income and expenditure patterns, these men predict the pattern of the future. As I will mention later, the work of these individuals is not completely in vain, but what will guarantee other than laws of probability that their predictions will come true? The element of participation is absent.

The alternate road, and the one to successful budgeting, requires active participation. Many individuals take part in contributing to or making use of a company's funds. Almost without exception, these people are eager to perform in the most economical and productive manner. They lack only an intelligent "par" against which they can measure their achievements. Therefore, it is the Budget Manager's prime duty to provide the structure and advice which will utilize these energies most effectively. He can do this first by defining the elements of expense and revenue for which each foreman and manager is responsible.

Basically then, the Budget Manager must provide the *tools* for budgeting. With these tools, each operating manager must accept the responsibility of predicting and controlling the costs and revenues within his organizational unit.

Two other groups participate. The accountant, with his immediate knowledge of past revenue and expense and his control of accounting techniques, can render valuable advice and assistance. Further, by recording and analyzing performance related to plans, he becomes a vital partner in the planning and control functions.

Finally, the budget program requires a guiding force. This can usually be best provided by the appointment of a Budget Committee. This committee, comprised of the persons responsible for the major functions of the business, gives final approval of budget estimates and reviews performance against these estimates. It is, in the Company, the pinnacle of financial co-ordination and control.

THE REALISTIC NATURE OF BUDGETS

Another important policy factor requires emphasis upon the nature of budget estimates. In this, the term realistic is paramount. For reasons of self-protection certain participants in a budget program have a proneness to overstate anticipated expenditures and to understate expected revenues. Others, perhaps motivated by a sense of temporary satisfaction, will embark on an opposite path and predict unattainable goals. Neither achieves the objectives of budgeting. In its most useful form, the budget should inspire better than average performance but provide further a goal that can be surpassed by excellent achievement.

Finally in our construction of policy, and particularly during the budget's beginning stages, we should allow a tolerance for error. We do not want to fence anyone in as a result of a mere oversight but we also do not, on the other hand, want indiscriminate flexibility which would negate our attempts at con-

trol. Therefore, an effective guarantee of flexibility should be devised.

With these matters decided, the preliminaries to budgeting may begin.

Budgeting follows the lines of delegated authority — delegated profit and expense responsibility. Therefore, the Budget Manager must understand and plot the Company's organizational structure. At this juncture, I might point out that neither managers or accountants are often completely satisfied with the existing structure Dynamic business operations require continual change. The Budget Manager must learn to constantly adapt his techniques to these changes. In fact budgets will often point to a need for change.

DUTIES OF THE BUDGET MANAGER

A Budget Manager must also completely understand the definition and segregation of the Company's costs and revenues. He must insure that the code of accounts will isolate information for the demands of both management and accounting.

Thirdly, because history provides a partial knowledge of the future, the Budget Manager must review and analyze historical patterns of expense and revenue. This was the point at which our "ivory-tower budgeteers" had arrived. Funds are rarely expended in a completely haphazard manner. Even in instances of a complete absence of conscious control certain patterns will emerge. In general these patterns will be of three distinct types:

"Variable", in which the particular cost or expense increases or diminishes in direct relation to a corresponding rise or fall in sales or productivity. The direct labor and material costs of almost any company will fall into this category.

Another likely expense pattern, evidenced frequently by expenditures for executive salaries and occupancy costs, is one in which, during a limited period, the flow of expense will tend to remain constant in spite of changes in sales or productivity levels. This expense type may be cataloged as fixed, period or constant.

A third expense type is described as "semi-variable" since it is comprised of both variable and fixed elements. Let me mention a typical example. One foreman is needed when we first open the doors of our shop to produce widgets. His wages become a fixed expense of our operation. As production rises, this foreman continues to effectively supervise our shop personnel until we attain a production level of about 1,000 widgets each month. At this point, however we find that it becomes necessary to allow the foreman to remain a few hours in the evening each week to catch up with his report writing. The variable element of our expense in the form of overtime payments, has begun. Further increases in production, necessitating the hiring of more shop personnel, will also require assignment of additional part or full-time foremen to our shop. Thus, the wages of the foreman who joined our enterprise at its beginning recur, each month, in a constant manner. In direct relation to our increasing production, we must expend further amounts, through overtime payments or wages paid additional foremen, to assure adequate supervision of the expanding shop force.

EVALUATION OF EXPENDITURE PATTERNS

Although it is not within the province of the Budget Manager to evaluate these expenditure patterns, he will have provided a cornerstone of information to operating managers. These men will then be able, with their working knowledge, to choose the correct pattern and exert controls which will enforce adherence to it.

During this period of preliminary analysis, the Budget Manager would also be wise to determine the accuracy of previous accounting. By initiating immediate corrective measures, he can substantially alleviate future embarrassment.

As I mentioned before, the Budget Manager must provide the tools for budgeting. These tools are in the form of policy, procedure and forms. At the beginning of this article, you will recall that I defined a budget as merely the numerical expression of business planning. It is paramount then, that the tools to express these plans be spartonly simple. The budget maker's time must be directed most of all to planning with a minimum amount of time expended in the mechanics of budget preparation.

Since accounting reports are sometimes awesome and disturbing to operating personnel, budget and control forms should be designed to create a workman-like and interest-inspiring appearence. In this, as in many of the steps to successful budgeting, the psychological effect of our actions should not be ignored.

CHRONOLOGY OF BUDGET PROGRAM

The chronology of a budget installation will depend, in part, upon the program's initial objectives. To achieve both rapid and successful results, it is usually wise to begin in less difficult areas. Fixed expenses, such as those incurred by sales and administrative components of the organization, often afford a good starting point. An alternate beginning step consists of budgeting the earnings to be paid all salaried personnel in the organization. In addition to their relative simplicity, both of these approaches have the further advantage of immediately drawing the managerial and accounting elements of the organization into the workings of the budget.

Throughout these initial phases, the Budget Manager may concurrently indulge in statistical profit-planning and break-even determination. This information will assist operating executives to bridge the time interval until installation of the budget program is complete.

Later stages of the program will enter areas in which expenditures follow variable or semi-variable patterns. At this point, budgeting techniques and the understanding of their use become more difficult. Desirability or necessity will usually dictate the time at which steps should be inaugurated to accomplish forecasts of capital expenditures and cash requirements.

But dynamic and successful management is most of all interested in achieving a profit from operations. Therefore, the most significant time in the program chronology is the point at which the Budget Manager can coordinate each forecast of revenues and expenditures into the Company's overall profit plan. This is the objective to which all budget planning should be directed.

Finally then, armed with a sound knowledge of previous cost and revenue patterns; a well-honed set of budget tools and a blueprint of attack, the Budget Manager is ready to begin his crusade. This is the time at which he must draft the support of the executive group by making them a party to his plans. His program will then receive the beginning impetus which it requires.

CORRELATION OF THE BREAKEVEN CALCULATION WITH THE BUDGET

By: Harold H. Gearhart

Much has been written on the use of Breakeven Point calculations. Now we see a correlation of Breakeven Point with the Budget, to provide a crystalization of all operating budgets into a single focal point . . . Profit.

Two of the most vital statistics in the operation of a business enterprise today are the Breakeven Point and the rate of profit accumulation after that point is reached. These statistics are the synthesis of all the myriad and complex factors of an industrial organization, reduced to a common denominator picturing the profit possibilities of the enterprise as then existing. The Breakeven illuminates the road ahead, and says in effect that with the known quality of the sales dollar matched with serious budget control of operating expense the cost-volume relationship will produce a predetermined profit or loss result at any selected level of sales. Where else in the accounting records can we turn to such a useful tool in measuring the significance of the broad sweep of economic events upon the business unit?

To develop a meaningful Breakeven point complete correlation with the Budget is required. Indeed the Breakeven point might even be said to be the fusion or crystalization of all operating budgets into a single focal point the ultimate objective of the business — profit.

IMPORTANCE OF THE SALES BUDGET

Fundamental in this analysis, is the Sales Budget. Although the Sales Budget should portray as accurately as possible the total products to be sold and the sales dollars to be received during a given time period it is, nevertheless, subject to some degree of variation, particularly as regards the volume figure. From the standpoint of the Breakeven, however, we are mainly concerned with the Sales Budget from the standpoint of the quality of the sales dollar rather than its quantity. "Quality," in turn, depends upon the normal product mix, the customer or sales channel mix, and the effect of any other variables such as alternate FOB points, quantity discounts, etc. All these factors must be properly weighted in the analysis required by the Sales Budget. From this detail we determine the normal product mix applicable to the normal sales dollar. This sales dollar, tied into this definite product mix, becomes the base to which all variable costs are now related. The analysis of the content of the sales dollar must be both comprehensive and exhaustive for much of the success in working with the Breakeven formula depends upon the accuracy of this evaluation. The Breakeven sales dollar becomes our common denominator and is the foundation for constructing the entire Breakeven calculation, or budget.

Direct Labor and Direct Material standards are now applied to the particular product mix developed in the sales analysis. These prime costs, being purely variable, must now be expressed in relation to the weighted sales dollar as a percentage of that base. Assuming for illustration that the weighted standard cost of labor per $100 of sales is $10, and the material standard cost is $40, we then have variable ratios of 10% and 40% for these particular costs. Any expected or normal variance from these standards should be reflected in the Breakeven build-up at this point.

VARIABLE BUDGET ALLOWANCE

Operating budgets for manufacturing expense, based on proper analysis between variable and fixed costs, are now correlated to the Direct Labor ratio shown above. If the variable budget costs are related to standard Direct Labor hours, the Direct Labor dollars ($10 per $100 of sales in the above illustration) must be translated into hours, the variable ratio applied, and in turn converted baick to a ratio against the Direct Labor dollars. Assuming, for illustration, that the variable manufacturing budget allowance is $1.10 per standard Direct Labor hour, and the standard Direct Labor of $10 represents 5 standard hours, the variable manufacturing overhead is $5.50 or 55% of standard Direct Labor dollars. Expressed as a ratio of our common denominator, the sales dollar, the variable budget allowance is 55% x 10% or 5.5%. In event the variable manufacturing budget uses standard Direct Labor dollars as the base, a direct conversion is used to the sales dollar ratio, in this case 55% x 10%.

Budgets for all other departments of the business (sales administration, advertising, etc.) complete the Breakeven build-up, and as above, all variable costs in these budgets must likewise be expressed in relation to the sales dollar. Breakeven points are normally calculated in terms of sales dollars per month, therefore, all fixed costs are related to that period of time. The Breakeven calculation or budget for a single plant may, therefore, look something like this (all figures hypothetical):

	Variable (% of Sales)	Fixed ($ per Mo.)
Direct Labor — Standard	10.00%	
— Variance 2%	.20	
Direct Material—Standard	40.00	
—Variance 0.5%	.20	
Manufacturing Expense:		
Variable 55.0% of Direct Labor	5.50	
Fixed		$156,000
Supplemental or appropriation costs		10,000
Total Cost of Sales	55.90%	$166,000
Expenses:		
Administration		39,000
Distribution Costs:		
Selling	3.60	50,000
Advertising	2.50	30,000
TOTAL COSTS	62.00%	$285,000

Breakeven Point:

$$\frac{\$285{,}000}{100\% - 62\%} = \$750{,}000 \text{ Sales per Month}$$

Profit rate after Breakeven: 38%

MULTIPLANT BREAKEVEN COORDINATION

Multiplant operations will, of course, require separate Breakeven calculations for each location. The Breakeven for the entire company is then constructed by weighting each variable under the plant Breakeven calculation by the ratio of the

plant budgeted sales to the total company budgeted sales. Fixed costs for the company as a whole will equal the sum of the individual plant fixed costs. The total company Breakeven, so constructed, will equal the sum of the Breakeven points of the individual plants only if the budgeted sales are distributed by plants in the same ratios as the Breakeven sales.

In order to distill all operating figures into this single vital statistic, the Breakeven point, it is necessary to make certain assumptions:

a. That Direct Labor in sales equals Direct Labor in production, for any given period of time. This assumption applies specifically to absorption costing and not to direct costing.

b. that fixed costs flow evenly by months.

c. that costs classified as variable actually do respond to fluctuations of the base.

d. that so-called appropriation or supplemental expenses are either accrued monthly on the books or the actual cost is an even flow by months.

e. that there are no seasonal variations in expenses, for example, heat.

f. that the quality of the sales dollar follows the budgeted pattern.

It should be emphasized that these assumptions do not in any degree weaken or invalidate the importance of the Breakeven as a tool of effective management control. While the above points may cause the Breakeven profit calculation to disagree with the actual profit for a particular month, proper correlation and analysis can and should substantiate the validity of the Breakeven figure.

Analysis of operating results against the theoretical Breakeven should be a continuing function. Only in this way can the many facets of the enterprise be brought into full perspective and an understanding of the profit behavior pattern be secured. Reconciliation of the monthly Profit and Loss Statement against the Breakeven will include these particular steps, among others:

RECONCILIATON OF P & L WITH BUDGET

a. Under absorption costing did the Direct Labor in production equal the Direct Labor in sales? If not, the Profit or Loss effect is equal to the difference in the Direct Labor multiplied by the absorbed overhead rate for fixed overhead only. If the total standard overhead rate for inventory and Cost of Sales is 160% of Direct Labor, for illustration, and the variable manufacturing expense budget is 55% of Direct Labor, then the standard absorbed rate applicable to fixed overhead only is 105%. Assuming Direct Labor in sales of $100,000 and Direct Labor in production of $75,000, the Profit and Loss Statement will show $26,250 less profit than the Breakeven formula: 105% x ($100,000 — $75,000). In event the production level is higher than the sales level, the Profit and Loss Statement will show a greater profit, calculated in the same manner. This, incidentally, is one of the favorite arguments of the Direct Costing advocates.

b. Did operating expenses keep within the budget or within the variance assumed in the Breakeven formula? Here the usual budget performance report will readily yield the answer.

c. In event of special appropriations for abnormal or non-recurring expenses not accrued on the books at an average monthly rate, what is the comparison of the actual expenditures during the month with the Breakeven absorption?

d. Breakeven calculations will normally reflect seasonal expense swings on an average weighted basis. Assuming fixed factory overhead of $160,00 per month during 7 months requiring heat, and fixed factory overhead of only $150,000 during the remaining 5 months, the Breakeven fixed would be shown as $156,000. On monthly comparisons with actual results this seasonal factor must be taken into consideration.

e. What about the quality of the sales dollar — do the product mix, sales channel mix, and pricing mix for the month follow the budgeted pattern or is the actual result at variance with the standard assumed in the Breakeven?

The above outline does not cover all the ramifications of the subject, but it is hoped that interest will be stimulated. The Breakeven has not yet reached its rightful standing as a vital and powerful control device for the overall analysis of the business enterprise. Too frequently the Breakeven point is calculated solely as a curiosity statistic and then shelved, with little or no reference being given to it in monthly analyses. It is felt, therefore, that for top management, in particular, here is a fertile field for getting that essential overall grasp of the many and conflicting economic forces that help shape the profit destiny of the business unit.

NEW MEMBERS

KEITH P. ALEXANDER, Controller, Orchard Paper Co., St. Louis, Mo.

JOHN PAGE, Staff Asst. Budgets, Cerro de Pasco Corp., LaOroya, Peru, South America

R. P. GOODWIN, Goodwin & Company, Pittsburgh, Pennsylvania

BRUCE T. MAYHALL, Gen'l Acct. & Budget Supvr., The Lodge & Shipley Co., Cincinnati, Ohio

JOSEPH E. SLOSER, Operations Analysis Mgr., Curtis-Wright Corp. Electronics Div., Teaneck, N. J.

BERNARD B. BEYMAN, Asst. Controller, Airborne Accessories Corp., Union, N. J.

FRANK D. ROBINSON, V. P. and Treasurer, Diebold, Inc., Canton, Ohio

JAMES B. FROST, Asst. Treas. and Budget Director, Diebold Inc., Canton, Ohio

WILLIAM A. JOYCE, Comptroller, The Morgan Engineering Co., Alliance, Ohio

WILLIAM M. SMITHETT, Chief Cost Accountant, Borg Warner Corp. Wooster Div., Wooster, Ohio

DWAIN BUSSARD, Supvr. Cost and Budget Dept., Tait Mfg. Co., Dayton, Ohio

ARTHUR B. LAMBERS, Supvr. Budgets and Operating Costs, Allison-Aeroproducts, G.M.C., Vandalia, Ohio

HERMAN A. REYSEN, Accountant, Raybestos Div., Raybestos Manhattan, Inc., Stratford, Conn.

WILLIAM BENE, Div. Compt., Raybestos Div., Raybestos Manhattan, Inc., Stratford, Conn.

LEONARD F. PERRINI, Budgeting Accountant, Raybestos Div., Raybestos Manhattan, Inc., Stratford, Conn.

MAX E. LEWIS, C.P.A., Louis Sturz & Co., New York, N. Y.

SEVENTH ANNUAL NSBB

CHICAGO – MA

THINGS TO SEE AND

Chicago's Skylines

(LAKE FRONT)

DAYLIGHT

AND

(LAKE FRONT)

NITELITE

E. E. YOUNT
General Chairman
1957 National Convention

Chicago's Museums

(SHEDD AQUARIUM)

ALIVE

AND

(NATURAL HISTORY MUSEUM)

DEAD

B NATIONAL CONVENTION

MAY 23-24, 1957

E AND MEN TO MEET

Chicago's Playgrounds

(OAK ST. BEACH)

ANTS

AND

(SOLDIER'S FIELD)

UNCLES

DON CARTLAND
Chicago Chapter President

Chicago's Street Scenes

(STATE STREET)

NOW

AND

(NO. MICHIGAN BLVD.)

THEN

A PRACTICAL BUDGETING PROGRAM, IN A REFRACTORY PRODUCTS COMPANY

By: Ralph Luckaman
Budget Manager, A. P. Green Fire Brick Company, Mexico, Missouri.

Recognizing that every budget program must be tailor-made to fit the industry and the company management, this writer describes the effective budget program which has done exactly the job it was cut out to do, for this particular company.

Many articles have been written on the subject of budgeting. Some of the systems described were highly technical and scientific and some very simple, each of course has its own place in the particular business in which it is used.

The success of a budget plan in any company depends to a great extent on how it is used, what a particular management group may desire in the form of a budget, how the Controller's or Treasurer's Department is set up to furnish the information required.

To elaborate on the above, it is common knowledge to all budget people that they can't take a certain budget system and install it in a company and hope it to be a 100% success without just a little tailoring to fit that particular company. Many budget systems fall by the wayside because the budget men think a certain system will work and make every effort to see that it functions down to the last decimal point.

The main purpose of this article is not to sell you on the practicability of any specific budgeting concept but set forth a plan that is being used in a successful company. The thought here is that you readers are members of the Budget Society just like myself mainly because you want to learn more about budgeting and how other companies are budgeting. The best way to do this is to make a simple presentation of a budget procedure. This article won't answer all problems. Even if one or two persons gain an idea it will have served its purpose.

WHAT MANAGEMENT WANTS

A successful budget is based partly on what management desires. Certainly no two managements think exactly alike, therefore the same budget system probably wouldn't work in two different companies. Another important factor is that no successful budget system is successful just because the accountants insist on adhering to strict accounting principles. Perhaps a certain type figure or percent will mean more to a particular management group than another. If that be the case, give them the figure. This doesn't mean that an accountant should agree to every change. Surely anything involved in governmental reports, taxes, Securities Exchange Commission, etc. should be done with true accounting principles in mind. Inasmuch as budgeting usually doesn't involve these we can be a little more relaxed in our requirements.

The management here at A. P. Green Fire Brick Company has two things uppermost in their minds when requesting budgets:

1. A plan which will show them the estimated income for the current year. Recently we have gone into the 5 year forecasting.
2. A plan which will insure the continued growth of the company, a responsibility they feel is due the shareholders who have invested their funds in the company. Their decisions many times are based on what the budgets and forecasts show, along with, of course, a careful study of economic factors, competition, etc.

HISTORY OF BUDGET PROGRAM

Budgeting has been in operation in the A. P. Green Fire Brick Company for about 7 years having been installed by our current Treasurer, Mr. C. C. Morley, in 1950. The company, which is the third largest refractory company in the world, manufactures and sells a complete line of refractory products. There are sales offices in all principal cities and countries in the world. The home plant is located at Mexico, Missouri with manufacturing divisions or subsidiaries at Sulphur Springs, Texas; Woodbridge, New Jersey; Troy, Idaho; Portsmouth, Ohio; Oak Hill, Ohio; Argentina, England and Canada. Affiliates are located in Chile and Mexico.

During the recent wars little though or time was given to budgeting, however, since about 1952 much emphasis has been placed on it, due mainly to the tremendous growth of the company. The writer was instructed to install a more complete system. It is by no means a very technical and scientific budget, rather it is set up in a manner we believe that is most readily understood by the average foreman. Many times you have heard the statement from foremen, "By the time I learn what the Accounting Department is talking about in their reports, etc., I don't have any time for anything else" or "This is like a jig-saw puzzle to me."

Nor do we lay claim that it's the best budget system that could be installed; certainly many budget men could install a more complete one.

The thing we do wish to point out is that at the present time it serves the following uses:

1. Management understands and uses it.
2. The foremen understand and use it.
3. The Accounting Department practices a budget follow-up procedure.

THE SYSTEM

The four main categories in the budget system are —

1. Operating Budget
2. Capital Expenditures Budget
3. Cash Budget
4. Projected Balance Sheet

The operating budget is broken down mainly as —

1. Sales
2. Cost of Sales
3. Fixed Factory Departments
4. Selling & Administrative
5. Miscellaneous Income & Expense
6. Federal Taxes

Normally, the budget work for the coming year begins

around November 1st when worksheets are sent out to the various heads of the Fixed Departments. The worksheet contains the department accounts and columns as follows — last year actual, last 6 months actual, new annual budget, 1st 6 months total, and columns for each of the first 6 months and 1 column for the last 6 months total.

A letter of instructions and comments is posted to the front of the folder (legal size file folders).

During the following two weeks the department heads work up their budget, conferring occasionally with the Accounting Department on certain items. After the department heads review their budgets with their division head, the budgets are sent to the Budget Supervisor who checks them and later reviews them with the department head so he may be in a position to talk intelligently about the budgets when the Treasurer and President make a final review. After the final review and approval the budget is typed with full copies going to each division head and certain others. Each department head receives his own department budget. A point we wish to bring out here is that in no case does the Accounting Department change any budget figure unless they first confer with the department head involved. Therefore, more emphasis is placed on the fact that it is their budget, not the Accounting Departments. All such budgets mentioned above are for the Factory, Fixed Departments, Selling and General Administrative.

OPERATING DEPARTMENT BUDGETS

The operating department budgets are handled a little differently. They are on a variable budget basis so as to provide flexibility due to upward or downward trends in production. These budgets or standards are set by the Cost Department with assistance from the Industrial Engineering Department. These budgets are also reviewed together by the Cost Department and the foreman.

After all budgets are in, the Budget Supervisor prepares a comparison report, current year latest estimate vs. new year budget. All items of any significance over or under the budget are detailed.

The comparison and detailed overs and unders are given to the Treasurer who reviews with President. If accepted, the budget is then typed and copies sent out to the various persons concerned.

BUDGET REPORTING

At the end of each month a budget report on the non-operating departments is prepared as follows —

President — Summary of overs and unders by responsibility. Example, Mr. L. J. Miller, Factory Fixed Departments, Mr. R. S. Bradley, Research and Engineering, etc.

Division Heads — Summary of each department's operations under his jurisdiction.

Foreman — Detail budget report showing all overs and unders of any size in detail, etc. Reviews are scheduled by Budget Supervisor so each foreman will have all necessary information at hand to talk with his superior.

You will notice the budget reports are prepared strictly in accordance with scope of responsibility so that each man has information at hand to talk intelligently with his superiors about his operations.

Regular factory budget reports are prepared for all operating departments and the Director of Manufacturing. The Cost Department reviews each report with the appropriate foreman. Regular scheduled cost meetings are held monthly.

CAPITAL EXPENDITURES BUDGET

The Capital Expenditures Budget worksheets are sent out at the same time as the operating budget, however, a little more time is given for the preparation. About December 1st they are called in and reviewed by Budget Supervisor and Treasurer. Upon approval by the President, it is typed and distributed. A weekly report on actual capital expenditures is made. In addition a quarterly actual vs. budget report is made. It may be mentioned here that the approval for the Capital Expenditures is given only after the proposed figures are injected in the cash report and projected balance described below.

CASH OPERATING BUDGET

From the operating budget, the capital expenditures budget and analysis of the balance sheet accounts, a cash operating report and projected balance sheet are prepared as follows —

The operating budget is posted to a worksheet by account classifications such as travel, telephone and telegraph, etc. Inter-account transfers are made for certain items. For example, a cash receipt for commission income will be reclassified to a cash receipts from accounts receivable because that will be the ultimate source of the cash. A tape is run on the worksheet, taking into account the reclassifications. The resultant answer will be the net profit figure per the Profit and Loss Statement budget.

Anticipated receipts and disbursements for all balance sheet accounts not affected by the Profit and Loss Statement budget are added to the list obtained on the first worksheet on which the adding machine tape was run.

By starting with the beginning cash balance and adding all the receipts and deducting all the disbursements mentioned above, a cash balance as of the end of the budgeted year is obtained.

We then take a condensed balance sheet as of the beginning of the budgeted period and post all anticipated receipts and disbursements to it. After making certain reclassification entries to the balance sheet for other non-cash items such as amortization of patents, etc., a projected balance sheet is obtained. The cash figure in this balance sheet will tie in with the cash figure on the cash projection sheet. Of course, the profit to surplus will agree with the operating budget.

A monthly cash operating report is prepared to show actual vs. budget by months. These actual figures are readily obtainable due to our particular type of vouchering system, etc.

With the above budgets and the regular operating reports, management is informed of the conditions of the company at all times. In past years, we have revised budgets only when thought necessary. However, beginning this year, the entire budget system is on a six months basis rather than a year. We believe this will give management an ever better insight on the companies' future operations.

C. H. "Jan" JANKOWSKI, Bell Helicopter Corporation; C. P. MAXCY, Chance Vought Aircraft, Inc., and A. J. HAYES, Dresser Industries, Inc., participated in the American Institute of Industrial Engineers' Third Annual Management Forum held March 21st at the Statler Hilton. They led a discussion as members of a Dallas NSBB panel on the subject "Profit Planning Through Budgetary Control."

CONTINUOUS MANUFACTURING EXPENSE BUDGET REVIEW AS A REQUISITE OF SOUND BUDGETING TECHNIQUE

By: Russell F. Rose, Assistant Comptroller
The Emerson Electric Manufacturing Co., St. Louis

If Budget Control is a mutual and joint effort, it must be constantly alert to performance and changes. Continuous reviews are therefore a necessary requisite.

Budgeting is a well established program in many companies, both large and small, and has proven, in its overall application, an indispensable tool toward effective business management. Importantly, it affords an intelligent approach to the future and, both from the short term and long term viewpoint, by effective use and application can chart the course toward the realization of budget objectives.

Generally, budgeting has two major objectives — (1) to provide a basis for overall coordination — (2) to control each operation — to make possible the successful attainment of the entire budget program.

Each segment of a complete budget program has great individual importance as related to the overall goal. Yet, with today's changed conditions the keen competitive situations and the tremendous need for tightening up, constant vigil over the important manufacturing expense budget and the controls used should be emphasized and re-evaluated.

BASIC FUNDAMENTALS OF BUDGET

In connection with this review and re-evaluation it is important to review the basic fundamentals in establishing the ground work for the budget and it seems reasonable to reconsider these fundamental steps in looking at the budget for manufacturing expense, as set out in the following outline:

1. The budget procedure must have the approval and backing of management and of the basis for arriving at fair and reasonable budget allowances in order to gain the cooperation and confidence of those persons to be charged with the responsibility for carrying out the program.
2. While past experience is a valuable guide in the determination of budget allowances the real value comes from setting allowances that are realistic of attainment and representative of the expense factors budgeted for the expected sales volume taking into consideration the effect of product mix compared to the mix in volume of preceding periods.
3. Responsibility for performance should rest with those who have the authority to incur expense in accordance with the budget plan. In this respect the control should be related only to direct expense for which the responsibility lies; no allocation or proration of arbitrary charges should be made.
4. Separate budgets should be determined for each department or production unit in the manufacturing group and the control of expenses should be designed for integration into the overall budget. Inasmuch as expense control is most effective from a short term observation period it seems logical to break the budget year down to a quarterly basis of accounting. Estimates can then be established for each quarter and necessary revisions made in succeeding quarters where the budget is reflecting variations due to changed conditions in operations, methods changes or in the product mix resulting from changed sales volume.
5. The accounting system must be adequate to provide proper departmental expense classifications as the source of basic budget information upon which to base estimates and for purposes of comparing actual results to budget allowances and to determine the reasons for variations.
6. Periodic reports on performance should be prepared and distributed promptly to those individuals charged with budget responsibility. Variations and reasons therefore should be factual and complete enough to enable a proper appraisal of performance.
7. The approach to good budgeting emphasizes an appreciation that operating by budget control is an aid to good management and is not to be looked upon as a substitute. Experience gained from sound budgeting practice justifies the contention that a realistic approach in setting budget objectives will tend to create and develop an enthusiasm and cooperation so vitally necessary in attaining good management.

MANUFACTURING EXPENSE REVIEWS

The primary aim of budgeting is to coordinate the activities of the company into a balance whereby the operations can be controlled to give the highest degree of efficiency leading to the greatest amount of profit. Good budgeting can create many advantages. A continuous review of manufacturing expense budgets is a requisite of sound budgeting. The manufacturing expense budget must be gauged to contribute to the final profit goal and it must demand the use of necessary and prompt controls to correctly enforce conformance to the budget thus assuring fulfillment of that goal. Budget control is a mutual and joint effort. It must be constantly alert to performance and changes. It must be looked upon as an aid to overcome problems, which, in the long run, will prove effective because good performance will encourage and produce new and profitable ideas.

Certainly this constant review and alertness is much needed in this day of fast changing conditions. The great strides made in automation and expanded plant facilities present many opportunities for cost improvements. These conditions demand our constant vigilance. By the exercise of good control over manufacturing expense a significant and profitable contribution will be realized in the entire budget program.

NEWS BULLETINS

TED BEARD of the SAN DIEGO Chapter has been promoted from Director of Budgets to Plant Controller, and ROSS STEVENS was appointed his successor as Director of Budgets at the Solar Aircraft Corporation.

NICK DOUKAS, also of the Solar Aircraft Corporation, and San Diego Chapter, was recently appointed Supervisor of General Accounting.

A. P. HEWLETT of the NORTHERN NEW JERSEY Chapter reports that the NACA Chapter of Paterson, New Jersey invited his NSBB Chapter to lead a discussion on the subject of "Budget Administration."

NORM REINHOLD was nominated and elected to the Vice-Presidency of the CINCINNATI Chapter.

ELECTRONICS AND THE FUTURE

By: E. W. Buge

Controller, Bernardin Bottle Cap Co., Evansville, Ind.

The electronic age is not just around the corner — it's here! Tomorrow's great advances are arriving daily.

Are YOU preparing?

We now have computers:

That operate 100,000 times as fast as man;

Print data at the rate of 120,000 characters a minute— equivalent to 400 typists at 60 words a minute;

That remember as high as 24 million digits;

That operate up to 24 input and output devices.

These computers are now beyond our knowledge of their application and plans for using them.

We have photofacsimile which can send and receive all internal communications including pictures of the items.

We have teletype and electric typewriters which can take 5 channel punched tape from anywhere in the world and convert it to accounting data.

In tomorrow's manufacturing operation, the typing of the customer's order would be the first and last manual operation — the rest of the time electronic machines will be making the worker's decisions. Electronic systems will automatically transmit information to the manufacturing plant, the warehouse, and the customers. In the factory, other machines will maintain inventory information and schedule various manufacturing operations through a complicated system that will take into account dozens of variables.

A teletype network combined with an electronic measuring device enables six men to operate the lines of four pumping stations — previously ten men were required at each station.

AUTOMATIC CONTROL A REALITY

I watched a man in New York dial certain code numbers for a pumping station 1,000 miles away. Seconds later, the teletype was pounding out the stations, suction pressure, amperage, and discharge pressure, and instantaneously adjusting itself whenever an unexpected event, such as a breakdown, occurred on a production line.

Desk size computers for production scheduling enables a scheduler to determine the load on production lines or machines simply by setting a dial for the quantity of products desired. The machine automatically extends, summarizes, and instantaneously compares this potential load with the available production capacity.

Increased emphasis on reliable market analysis, and incentive systems based on good maintenance and high operational level of equipment, are here.

A single center combining production scheduling, engineering, market data and factory operational planning is a possibility.

This is what we face. Management will need more and more information — on time or ahead of time. Management — which includes all of us — needs education in the use of these devices. Automatic machines storing millions of figures which can be reached in a fraction of a second will change our concept of budgeting, financial planning and control, and accounting.

Creativity is now and will become a more important factor in accounting.

THE NERVE CENTER OF BUSINESS

The financial division is rapidly becoming the nerve center — the very heart and brain of management — simply because it summarizes and digests all of this information. Therefore, it behooves us to find out everything possible about electronic data processing. It will soon be available in small enough packages for all of us to be able to afford the investment.

Get busy today even if you only stand on your head once a day to get a new look at things.

Here in a nutshell is my outlook for the next five years:

New information and reports for management;

Management strictly by exception with your budget as the base — a computer can spot exceptions quickly;

Positive control of expenses, costs, and inventories;

An inquiry section which will answer questions or provide data on any phase of the business;

An analysis of expenses in minutes;

Day by day profit and loss and balance sheet accounting;

The effect of each transaction on your budget and mine.

To do all this it will take people — trained, intelligent people — active in thought and open to new ideas — creative people.

It requires men with *talent* and, *need I add, Tact.*

Talent is power
Tact is skill

Talent is weight
Tact is momentum

Talent knows what to do
Tact knows how and when to do it

Talent is wealth
Tact is ready money

Talent is the scientific skill in business forecasting
Tact is the oil that keeps the machinery running

Remember — tact is 10 times as important as talent.

A.M.A. Seminar Leaders

JOSEPH HILES who is Assistant to the Controller of Lukens Steel Company, and a member of the Philadelphia Chapter served as Chairman of an A.M.A. Seminar entitled "Functions and Organization of the Budget Director's Job."

STAN GRADY of the Milwaukee Chapter also participated in an A.M.A. seminar on the subject "An Overall Budget System for Problem Planning" which was held in two three-day sessions in March and April at New York.

1957 NATIONAL CONFERENCE PLANNING IN FINAL STAGES

The smiles in the above picture attest to the fact that the planning for the 7th Annual National Conference of the National Society for Business Budgeting has progressed satisfactorily. The time is drawing near for the above gentlemen to display the fruits of their efforts, and we know that all of you are making plans to witness the unfolding of these year-long efforts by being on hand at the opening of the National Conference on May 23rd, at the Palmer House, Chicago, Illinois. The gentlemen are identified as follows: Left to Right — Seated — M. G. Ullrich, Registration Chairman; D. L. Cartland, Chicago Chapter President; E. E. Yount, General Chairman; L. B. Landreth, Chicago Chapter Vice President; C. S. Holsteen, Chicago Chapter Secretary; Standing — N. L. Aulabaugh, Registration Committee Member; C. E. Hoglund, Financial Chairman; A. H. Franking, Program Chairman; A. G. Avant, Publicity Chairman; M. C. English, Arrangements Chairman; and J. L. Garrett, Chicago Chapter Publicity Chairman.

"BUSINESS PLANNING PAYS OFF" SELECTED AS THEME FOR 7th ANNUAL NSBB NATIONAL CONFERENCE

Planes, trains, busses and automobiles from all points of the United States are pointed toward CHICAGO to arrive there in time for the opening of the 7th Annual NSBB National Conference on May 23rd. Registration to begin at 8:30 A.M. at The Palmer House. The conference committee has selected as the theme for the conference "Business Planning Pays Off," and has promised certain innovations in NSBB conference schedules to enhance your enjoyment and education.

The program outline, with only a few spots being held open in order to secure the finest speakers, is as follows:

THURSDAY, MAY 23, 1957

8:30 a.m. Registration

9:50 a.m. Conference Opens
Donald Cartland, President, Chicago Chapter

10:00 a.m. "An Economist Looks at Budgeting"
Morris Cohen, National Industrial Conference Board

"A Humanist Looks at Budgeting"
Dr. R. K. Burns, Professor, University of Chicago

12:15 p.m. Luncheon

1:00 p.m. Luncheon Speaker
William A. Patterson, United Air Lines

2:00 p.m. Speaker - John F. Mannion, Senior V. Pres., Continental Illinois Nat'l. Bank & Trust Co.

3:00 p.m. Annual Business Meeting

6:00 p.m. Cocktails
Music by Starlighters, All Girl Orchestra

7:00 p.m. Dinner

8:15 p.m. Dinner Program
Northwestern Men's Glee Club

8:40 p.m. Speaker
Not final

FRIDAY, MAY 24, 1957

9:00 a.m. "An Operating Man Looks at Budgeting"
Nelson C. White, Vice President, International Minerals & Chemical Corporation

"A Financial Man Looks at Budgeting"
J. L. Pierce, Vice President and Controller, A. B. Dick Company

Speaker - John R. Bartizal, Chairman of the Board, Benjamin Elec. Mfg. Co.

12:30 p.m. Luncheon

1:15 p.m. Luncheon Speaker
Ara Parseghian, Football Coach, Northwestern University

2:00 p.m. "A Budget Director Looks at Budgeting"
Walter Bunge, Budget Director, Inland Steel Company

3:00 p.m. Conference Adjournment
Donald Cartland, President, Chicago Chapter

The innovations? Why, the Thursday evening session

NEWS BULLETINS

A special National Committee on "Long Range Convention Planning" has been appointed by National President, W. D. McGuire. The Committee is composed as follows: Chairman, L. G. HAWKINS, Member-at-Large; A. E. BARRY, Bridgeport Chapter; A. D. MORR, San Francisco Chapter; E. A. VATTER, Louisville Chapter; and C. O. WESSMAN, Cleveland Chapter. A report is expected to be presented at the Director's Meeting in May.

M. C. AICHHOLZ, G. W. GAUSING and C. J. DEITERMAN, Chairman and Committee members respectively of the Election Committee, reports that as of February 25, 1957 there were on hand 394 affirmative ballots from members regarding the nine By-Laws amendments. Therefore, all nine amendments to the By-Laws, as tentatively adopted by the Board of Directors at their meeting on September 28, 1956, have been confirmed by the membership.

CHARLIE ECKELKAMP was invited to address a class of Senior Naval Officers, attending a post graduate course in Controllership, at the George Washington University, Washington, D. C. The title of his subject was "Development, Installation and Operating of a Budgetary Plan — A Case Study."

JOE BUBUL of the Indianapolis Chapter will leave that city on April 1st, to accept a position as Controller of the Allied Products Company of Sanford, Maine.

We thought you might be interested in a little recap of the activities of our National President, BILL McGUIRE, who in his capacity as National President of NSBB and in his own right as a budget expert is frequently invited to speak or participate in forums on Budgeting. The recap follows: December — Participated in an orientation seminar on "Control of Capital Expenditures" at A.M.A. in New York. January — Article published in "The Office" magazine entitled "Library Functions of Budgetary Control System." Visited and was guest speaker at Cincinnati Chapter, January 22, Indianapolis, January 23, and Dayton, January 24th. February — Guest speaker at Fox River Valley Chapter N.A.C.A. March — Participate in three day institute on budgeting at the University of Wisconsin. April — Address supervisory group of Kimberly-Clark on the subject of "Broader Aspects of Budgeting." Charter presentations at Devner and Los Angeles. May — National Convention NSBB — Chicago, Illinois. AND there are probably some we have overlooked.

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of course! Note the Cocktail session with the All Girl Orchestra, the appearance of the Northwestern Men's Glee Club, and the Speaker of the evening — It's a secret for now, but we know you will be surprised, and pleased.

The ANNUAL BUSINESS MEETING has been scheduled for Thursday afternoon — Don't miss this session. In it you will learn the plans for the future of your organiation.

Additional information and registration forms will be mailed direct to each member. Plan now to attend the biggest and most worthwhile NSBB Conference ever planned for your benefit.

If at all possible, you will want to include your wife in your attendance plans. The Committee for the Ladies Program has also been very active, and plans are well developed to make the trip thoroughly enjoyable for all member's wives. Check your program mailing for details of this important phase of our annual conference.

SEE YOU IN CHICAGO ON MAY 23 and 24 AT THE PALMER HOUSE.

The Control of Decentralized Operations

(Continued from page 5)

would result in sales of one-third more units in this product. Applying this assumption to the product line data, total sales would be increased $580,000, and profit to $65,200. However, the standard investment would increase due to more inventory and increased receivables, so that the return would be 17.25% or a lower return percentage than the present Division Standard.

NSBB Mfg. Co. - Western Division — B-3

Profit or Loss Statement - March

	Total Division	Product A	Product B	Product C
Sales	$ 400,000	$ 250,000	$ 100,000	$ 50,000
Standard Cost of Sales				
Material	158,500	91,800	46,700	20,000
Labor	39,000	25,000	12,000	2,000
Burden	77,600	50,000	24,600	3,000
Total Standard Cost	275,100	166,800	83,300	25,000
Standard Margin	124,900	83,200	16,700	25,000
Manufacturing Variances				
Labor	(3,800)	(2,500)	(1,120)	(200)
Burden	(17,400)	(10,000)	(7,000)	(400)
Actual Margin	103,700	70,700	8,600	24,400
Operating Expenses	74,000	55,100	10,900	8,000
Operating Profit	$ 29,700	$ 15,600	$ (2,300)	$ 16,400

Investment:	
Gross Fixed Assets	$ 2,100,000
Inventories	1,600,000
Accounts Receivable	720,000
Total	$ 4,420,000
Annualized Profit	$ 356,400
% Return	8.1
Sales to Investment	1.09
% Profit to Sales	7.43

- TABLE B-3 -

NSBB Mfg. Co. - Western Division — B-4

Profit or Loss Statement - April

	Total Division	Product A	Product B	Product C
Sales	$ 500,000	$ 300,000	$ 180,000	$ 20,000
Standard Cost of Sales				
Material	202,000	110,000	84,000	8,000
Labor	52,400	30,000	21,600	800
Burden	265,500	60,000	44,300	1,200
Total Standard Cost	349,900	200,000	149,900	10,000
Standard Margin	148,100	100,000	30,100	10,000
Manufacturing Variances				
Labor	(4,800)	(2,880)	(1,900)	(100)
Burden	(14,500)	(9,120)	(4,400)	(1,000)
Actual Margin	120,800	88,100	23,800	8,900
Operating Expenses	74,000	55,500	11,500	7,000
Operating Profit	$ 46,800	$ 32,600	$ 12,300	$ 1,900

Investment:	
Gross Fixed Assets	$ 2,100,000
Inventories	1,500,000
Accounts Receivable	750,000
Total	$ 4,350,000
Annualized Profit	$ 561,600
% Return	12.9
Sales to Investment	1.38
% Profit to Sales	9.36

- TABLE B-4 -

One final word is necessary. The return on investment chart is not an automatic means of running the business. The charts and tables do not provide an infallible answer to management problems. They are tools to aid in decision making. In the ultimate end, there is no substitute for business judgment.

EXCERPTS FROM CHAPTER NEWSLETTERS

In the last issue of BUSINESS BUDGETING, we commented on the fact that we did not have, at the time we had to go to press, any details of the transpirings at the joint meeting o fthe NEW YORK and NORTHERN NEW JERSEY chapters. We now wish to report that Secretary and Newsletter Editor, F. W. GERE of the NEW YORK chapter issued a very comprehensive report on the meeting in his newsletter, and we are pleased to reprint his synopsis:

"Mr. C. C. Benedict, Controller of the Okonite Company of Passaic, New Jersey representing the New Jersey Chapter, spoke on the theory and philosophy underlying the 'Return on Investment' concept, along with the numerous considerations necessary to make this management tool necessary. He dwelt considerably on the basic concept of return on investment with its acceptance and refinement. As to application and values in controversy, Mr. Benedict covered the subject very thoroughly to mention a few, asset values, leasing building and equipment versus borrowed money, inventory values, cost of capital and return on investment.

"On the subject of price stability, he feels that one of the greatest reasons for rapidly expanding and refining the understanding and application of the return on investment concept throughout industry is the important part it can play in stabilizing heretofore reckless and destructive pricing policies and methods.

"Mr. Benedict concluded his talk by restating the points which he considered extremely important to gaining acceptance and value from Return on Investment.

"1) I think that there is still a great number of questions on the concept of return on investment that have to be rung out and refined before we are certain that we are advising management properly in this regard.

"2) We should not lose sight of the fact that our objective in the Finance Division is to reflect the true economics of our operations as clearly and accurately as possible at all times, being very wary of using any figures that are primarily developed with tax advantages in mind.

"3) There is a great need to rapidly expand the understanding and acceptance of return on investment, especially its part in the establishment of price so as to eliminate or minimize any tendencies to reduce price without sound economic justification.

"Mr. Littlefield representing the New York Chapter spoke on the subject of Financial Analysis, with particular attention to methods of return on investment and the method used by Johns-Manville. He stated at the outset that every management decision affects earnings in some manner, and the purpose of financial analysis is to help the decision maker decide which course of action, of the various alternatives possible, is the best one. In making these decisions, it is useful to have a standard or yardstick by which to gauge the financial desirability of various alternatives. The yardstick of return on investment can be set at some desired rate of return, or can be set on the basis of past history, as it has been done in Johns-Manville. In other words, it was assumed that if the stockholders have been satisfied with the return that they have received in the past, there is no reason why they would not be satisfied with a similar return in the future. However, by using the past rate of return as a minimum for gauging future investment, there is a strong likelihood that the return in the future will average better than that in the past.

"Mr. Littlefield mentioned the following methods of computing the return on investments: Pay back, cash flow, average investment, value of facilities employed and ultimate average investment.

"He stated that the ultimate average investment is the method used by Johns-Manville and gave examples of how this is computed. It is based on the concepts that there is permanence of investment and income, provisions for renewals must be allowed in computing the investment, and that funds for additional investments are not limited. In computing return on any specific project, the theory of marginal expenditures and earnings, caused by the project under question, are used as the basis for determining the financial desirability of the project.

"Mr. Littlefield mentioned that an analysis is no better than the facts used therein, and cautioned that estimates of the cost of facilities and the proposed sales volumes should be appraised very carefully before being used in analytical work. He called attention to the fact that some benefits cannot be evaluated on a financial basis (e.g., expenditures for improved working conditions.) He concluded his talk by reciting examples of problems which had been dealt with satisfactorily by the financial analysis methods used in Johns-Manville."

NSBB ENCIRCLES THE GLOBE

National Secretary Mel Aichholz, is pictured above handing the Los Angeles Chapter to Mr. Jeff Edmonds, Covington, Kentucky Postmaster to start the first leg of trip around the world via Bagdad, Melbourne, Honolulu and ending at Los Angeles for the Charter presentation April 23rd by our National President, BILL McGUIRE, SIDNEY KNIGHT, BRUCE ANDREWS and LAMBERT IRONS are the Members-at-Large who will relay the Charter on this epoch making flight. "Mel" Aichholz followed the progress of the tour by amateur radio. He reports that the Charter was forwarded by Mr. Knight, in Bagdad, on March 5th, and left Australia on March 20th. It should have completed its 'round-the-world course by this time.

ABOUT FIFTY CHARTER MEMBERS FOR TWO NEW N.S.B.B. CHAPTERS OUT WEST

Not one new chapter, but two! NSBB has been blessed with twins — The names of the newborn are LOS ANGELES and ROCKY MOUNTAIN (DENVER) CHAPTERS. Our West Coast area is growing strong, and with these two additional chapters, it has doubled in size in one year.

HAROLD COLTMAN, Chairman of the Formation Committee for LOS ANGELES, reports that their membership consists of seven members-at-large and twenty-three new members.

DONALD STEVENS Chairman of the Steering Committee for the ROCKY MOUNTAIN Chapter, reports that they now have fifteen charter members, but amends this with the observation that there may be as many as twenty-five members by the time the official charter is presented.

LOS ANGELES

HAROLD L. COLTMAN, McKinsey & Co., Los Angeles, Cal.

JOHN CARL DEAN, Radioplane Co., Van Nuys, California

JOHN E. FLEMING, Clary Corp., San Gabriel, California

FRANKIE T. FORTH, Marman Products Co., Inc., W. Los Angeles, California

OLIVER B. GARVER, JR., Lockheed Missile Systems Div., Van Nuys, California

FREDERICK C. HANNEMANN, The Garrett Corp., Los Angeles, California

KEET O. JOHNSON, Pacific Finance Corp., Los Angeles, Cal.

PAUL F. JORGENSEN, Radioplane Co., Van Nuys, Cal.

PHILIP J. KOEN, McKinsey & Co., Inc., Los Angeles, Cal.

GENE A. KOLL, McCulloch Mtrs. Corp., Los Angeles, Cal.

RICHARD F. LEGRO, Lybrand, Ross Bros. & Montgomery, Los Angeles, California

KENNETH P. LUBEE, Purex Corp., Ltd., South Gate, Cal.

RICHARD B. MALMGREN, United Geophysical Corp., Pasadena, California

PHILIP F. MASTERSON, McCulloch Mtrs., Los Angeles, Cal.

HORACE B. PEARSON, O'Keefe & Merritt Co., Los Angeles, California

GEORGE H. PICKETT, Southern California Gas Co., Los Angeles, California

RICHARD J. REARDON, Sterling Electric Mtrs., Los Angeles, California

DOUGLAS A. SHAW, Kwikset Locks, Inc., Anaheim, Cal.

RUDY G. SNYDER, Automobile Club of S. Calif., Los Angeles, California

WOODROW W. THOMAS, Calavo Growers of Calif., Los Angeles, California

CHARLES L. WILEY, A. O. Smith Corp., Los Angeles, Cal.

WALTER H. WRIGLEY, Townsend Co., Cherry Rivet Div., Santa Ana, California

JOSEPH S. YOUNG, Automobile Club of S. Calif., Los Angeles, California

In addition to the preceding, the following are presently members-at-large who will become charter members of the new local chapter:

ALBY R. FOY, A. O. Smith Corp., Los Angeles, California

H. S. GRAY Western Air Lines, Inc., Los Angeles, California

FLOYD G. RIDDLE, Food Machinery & Chem. Corp., Los Angeles, California

RICHARD E. ROCK, Lockheed Aircraft Corp., Burbank, Cal.

ROCKY MOUNTAIN

L. PRESTON BLATTER, Frontier Airlines, Inc., Denver, Colorado

MARVIN E. LARSON, Frontier Airlines, Inc., Denver, Colo.

MARTIN F. OWENS, Central Bank & Trust Co., Denver, Colorado

DEWITT K. BINKLEY, Central Bank & Trust Co., Denver, Colorado

CHARLES H. NEWTON, Public Service Co., Denver, Colo.

WAYNE W. SMITH, Jefferson County School System, Denver, Colorado

MAX GALAMBOS, Daniels and Fisher's, Denver, Colorado

WILLIAM PURDIN, Daniels and Fisher's, Denver, Colorado

JACK L. WATSON, United Air Lines, Denver, Colorado

DONALD H. STEVENS, United Air Lines, Denver, Colorado

BERNARD R. BUCHHOLZ, Daniels and Fisher's, Denver, Colorado

DANIEL M. SHELDON, JR., Stanley Aviation, Inc., Aurora, Colorado

DAN F. SANTRY, JR., Maytag Rocky Mountain Co., Colorado Springs, Colorado

JOHN W. HAND, Ideal Cement Co., Denver, Colorado

JAMES E. CONKLIN, III, U. S. National Bank of Denver, Denver, Colorado

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BUDGETING

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"MAPI Replacement Manual" — Machinery & Allied Products Institute — R. R. Donnelley & Sons Company, Chicago — 1950

"Take the Guesswork out of Replacement" — Planning Replacement Section

"Seventh American Machinists Inventory of Metalworking Production Equipment"

"Replace with Modern Machine Tools" — Machine Tools Section

PLAN **NOW** TO ATTEND!

SEVENTH ANNUAL N.S.B.B. NATIONAL CONFERENCE

May 23-24, 1957

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